MINUTES OF THE
CAPITAL PROJECTS AND BOND
OVERSIGHT COMMITTEE

MAY 19, 1998

The Capital Projects and Bond Oversight Committee met on May 19, 1998, at 1:30 p.m. in Room 129 of the Capitol Annex. Representative Robert Damron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Robert Damron, Chairman; Senator Robert Leeper, Vice Chairman, Senators Tom Buford and Denny Nunnelley; Representatives Drew Graham, Paul Marcotte, and Jim Wayne.

Guests: Representative Gippy Graham; Roger Burge, Ron Carson, Paula Moore Carson, and Bill Hintze, Governor's Office for Policy and Management; Commissioner Armond Russ and Jim Abbott, Department for Facilities Management; Marilyn Eaton-Thomas and Tom Howard, Office of Financial Management and Economic Analysis; Dr. Robert Tarvin, School Facilities Construction Commission; Paris Hopkins, Governor’s Office; David Bratcher, Economic Development Cabinet; Dr. Jackie Addington, Owensboro Community College; Melanie Bailey, Natural Resources and Environmental Protection Cabinet; Mary Allen, University of Kentucky; Ken Houp, Finance Cabinet; Kim Burch, Dan Risch, and Nancy Osborne, LRC.

LRC Staff: Mary Lynn Collins, Pat Ingram, and Shawn Bowen.

Representative Marcotte said one item from the Committee’s April 15 minutes needed to be amended. He explained that Michael Collins from the Kentucky Post attended the April 15 meeting, and not Bill Bartow as stated. With the correction noted, Representative Marcotte made a motion to approve the minutes of the April 15 meeting. The motion was seconded by Representative Wayne and passed by voice vote.

and Representative Nesler will be asked to make a presentation to the Committee regarding that plan at a later meeting.

Chairman Damron then called on Mr. Bill Hintze, Deputy State Budget Director, Governor's Office for Policy and Management (GOPM), and Commissioner Armond Russ, Department for Facilities Management, to report on projects submitted by the Finance and Administration Cabinet.

Mr. Hintze asked Dr. Jackie Addington, President, Owensboro Community College (OCC), to join him for the presentation. He said the two OCC projects are the first projects submitted by the Kentucky Community and Technical College System (KCTCS) since KCTCS was established during the 1997 Special Session on Postsecondary Education. Mr. Hintze said legislation enacted during the Special Session transferred the authority for capital projects involving community colleges from the University of Kentucky to KCTCS.

Mr. Hintze said the two projects, a Cooperative Extension Facility and a Child Care Facility, will not require state funding for construction or operation. He said, however, the projects are still capital projects required to be submitted to the Committee for approval because they meet the two statutory tests: they exceed the $400,000 statutory limit as defined in KRS 45.750 and they will be constructed on state property.

Mr. Hintze said the Cooperative Extension Facility will cost $950,000, and a dedicated local tax will generate the funds necessary to build, operate, and maintain the facility. The Cooperative Extension Facility will be a 7,500 gross sq. ft. building to house agriculture, horticulture, home economics, and youth programs.

Next, Mr. Hintze discussed the OCC Child Care Facility. He said this project will cost $665,000, and will be financed through a combination of private donations ($400,000) and two federal grants (Early Headstart - $40,000, and Community Development Block Grant - $225,000). The facility will be 5,000 gross sq. ft. and will have the capacity to provide daycare services for 60 children.

Dr. Addington said the Council on Postsecondary Education (CPE) has approved an Early Childhood Education program at OCC. She said the two projects will be able to

In response to a question from Chairman Damron, Mr. Hintze said the Finance Cabinet will be involved in both projects, but the degree of involvement will be different. He explained that Finance will oversee the Cooperative Extension Facility since it is on state property, but since the project is so far along, Finance will not serve as construction manager. He said the county, OCC, and the Finance Cabinet will enter into a Memorandum of Agreement that will set out the parameters of the project. On the other hand, he said, the Finance Cabinet will play a more traditional role on the Child Care Facility, and will be active in procurement, contract administration, and construction management.

Chairman Damron, noting the advanced state of these two projects, said it may be helpful for KCTCS and the Council on Postsecondary Education (CPE) to review the process for authorization of capital projects and provide additional guidance to the institutions they oversee. He said this would be helpful to staff since there appear to be multiple interpretations of what constitutes a capital project. Mr. Hintze responded that he thought the interpretation of the Governor's Office for Policy and Management and the Finance Cabinet is the same as the Committee's. He said he did not know if there are other projects within the KCTCS System in some stage of development.

Chairman Damron asked the Committee's staff to draft a letter encouraging KCTCS and CPE to document what is considered a capital project, and at what point an unbudgeted project should be brought before the Committee.

Representative Wayne asked why the Cooperative Extension Facility is 100% locally funded. Mr. Terry Rhodes, Building Chairman for the Extension Service, said the Extension Service, as a taxing district, has enacted a tax on personal and real property. Mr. Manley, County Extension Agent for Daviess County, said the county typically is responsible for providing local facilities for the Extension Service, and state and federal moneys are used to assist in staffing the local offices.

Senator Buford asked if OCC will own the Cooperative Extension Facility once it is completed. Mr. Manley explained the facility will be owned by the Daviess County Extension District Board. If during the 75-year lease, Daviess County decides not to use the facility as an Extension Office, ownership of the facility will revert to UK.

Addington said those costs are written into the grant, and are sufficient. Mr. Hintze said user fees for the daycare center will become part of its operating income.

Senator Leeper made the motion to approve the OCC Cooperative Extension Facility project, subject to final approval by the KCTCS Board and CPE. The motion was seconded by Representative Graham and passed by voice vote.

Senator Buford then made the motion to approve the OCC Child Care Facility project, subject to final approval by the KCTCS Board and CPE. The motion was seconded by Representative Wayne and passed by voice vote.

Next, Mr. Hintze discussed the Kentucky River Authority Kentucky River Water Release System ($4 million in authorized bond funds and $800,000 in restricted funds) and the Kentucky River Lock 6 Repairs project ($302,000 in restricted funds). Mr. Hintze reported that Finance has consolidated these two projects to reduce costs and save time. He said there is no change in the overall project scope. The new funding authorized for the Kentucky River Water Release System project will be used to make repairs and place release valves in the chambers of Locks 5 through 9 to "mine" downstream water for use upstream during drought conditions, and the Lock 6 Repairs project funds are to be used to remove a land guard wall which has settled and created a public safety hazard.

Chairman Damron said this item did not require action.

Mr. Hintze discussed the Capital Plaza Tower One Time Cleaning project which involves a major cleaning of the Capital Plaza Tower, including cleaning and sanitizing 227,000 square feet of carpet, removing and cleaning 8,400 ceiling light fixtures and diffusers, and cleaning walls, panels, and 1,760 HVAC wall units. This project is part of a recommendation the National Institute for Occupational Safety and Health made after their inspection of the building. Mr. Hintze said $200,000 from the Statewide Deferred Maintenance Pool will be used to complete the project. He added that Finance Secretary McCarty and GOPM endorse the project.

In response to a question from Chairman Damron, Mr. Hintze said they will keep the Committee apprised on the status of projects in the Governor's Surplus Expenditure Plan. He said it is almost assured that every project in the Statewide Infrastructure Fund portion of the Surplus Expenditure Plan and the Endowed Chairs for higher education

Agreement (MOA) will be executed between the Commonwealth and the local government that is to be the recipient agent. The language in the MOA will be boiler plate and will establish: (1) accounting standards to assure expenditures are done according to state law and subject to a post audit; and (2) that the funds are authorized on a two-year basis by the General Assembly. If there are other parties in the financial agreement, they are to be identified in the MOA. He said the degree of monitoring will vary. Some projects will be treated as simple grants; others, particularly those that involve $5 million and more, will involve a more complex traditional agreement.

In response to a question from Senator Nunnelley, Mr. Hintze said, according to the Consensus Forecasting Group, the surplus balance will be between $305 and $325 million. He noted that other pieces of the Surplus Expenditure Plan: the school technology program, the state technology program, and the Budget Reserve Trust Fund will require additional funding from next year's surplus, and there is no assurance on the availability of those funds at this time.

Chairman Damron called on Mr. Dirk Bedarff of Peck, Shaffer, and Williams, to present a refinancing arrangement for the Northern Kentucky University (NKU) Student Housing Facilities project. Mr. Bedarff said the original leases, which consisted of a ground lease and a facilities lease, amounted to $15,490,000, and were scheduled to expire January 1, 2012. He explained that as a result of the drop in interest rates, the Finance Cabinet modified NKU's leases for a total present value savings of $782,251. He said as part of the lease restructuring, the debt service reserve fund was eliminated. In addition, the original lessor has been replaced by Fifth Third Leasing Company.

Chairman Damron said this item did not require action.

Next, Mr. Jim Abbott, Director, Division of Real Properties, discussed two state leases with square footage modifications: PR-3751, McCracken County, the Department of Workers' Claims – a lease modification adding 1,270 sq. ft. of space to accommodate an additional employee, provide an additional hearing room, and add a second consultation room; and PR-4142, Lyon County, Department of Public Advocacy – a lease modification adding 1,034 sq. ft. to accommodate three additional staff and provide a larger conference area.

The second lease modification report Mr. Abbott presented was for PR-3876, also located in Franklin County, for the Personnel Cabinet. He said the lessor is Leestown Partners, and the action being taken is to amortize $18,785 (plus 8.9% interest) over the remaining term of the lease (June 30, 1999). The lease modification includes converting part of a large file room into additional offices.

Chairman Damron said lease modifications of less than $50,000 must be reported to the Committee within 30 days, but do not require Committee action.

Chairman Damron then asked Commissioner Russ about the status of the air quality clean-up in the Human Resources Building. Commissioner Russ said the Finance Cabinet has met with the environmental consultant, and they are finalizing the scope of work needed to be done. He said employees working in the Human Resources Building were given an environmental/health survey and they will not know if anything else needs to be done to the building until the results of the survey are complete.

Chairman Damron, noting a number of his constituents had expressed concern about the building, asked Commissioner Russ to keep the Committee updated on the status of the Human Resources Building air quality clean-up. Commissioner Russ said he will try to have information available for the Committee next month.

Chairman Damron called on Mr. Tom Howard, Office of Financial Management and Economic Analysis (OFMEA), to discuss bond activity reports. Mr. Howard discussed a new bond issue report for Kentucky Economic Development Finance Authority (KEDFA) Medical Center Revenue Refunding and Improvement Bonds for the Ashland Hospital Corporation. The purpose of this issue is to refund Series 1987 and Series 1993 B bonds and to pay project costs for improvements to facilities. Mr. Howard said the bonds will be sold in June 1998; the expected ratings are A by Moody's, Standard & Poor's, and Fitch; the gross proceeds are $60 million; the expected interest rate is 5.09%; and the average annual debt savings resulting from the refinancing is $611,000 for the Series 1987 bonds for a period of 10 years, and $54,020 for a period of 25 years for the Series 1993 B bonds. Mr. Howard said the first call date is 2008 and the bond issue will be a negotiated sale. Bond counsel is Brown, Todd & Heyburn; underwriter's counsel is Peck, Shaffer & Williams; underwriter is Bear Stearns & Company; and the trustee has yet to be determined.

1998 Series P, will finance a communication and network facility and renovation of a clinical teaching support lab. Mr. Howard said the proposed sale date is June 9, 1998; the expected bond ratings are A1 by Moody’s and AA- by Standard & Poor’s; the gross proceeds are $6.2 million; the expected interest rate is 5.287%; the estimated average annual debt service is $503,749; and the term is 20 years. Mr. Howard said the first call date is May 1, 2008, at 101% and the bond issue will be a competitive sale. Bond counsel is Peck, Shaffer & Williams; financial advisor is Seasongood & Mayer; and the trustee is Bank One.

Next, Mr. Howard discussed UK Consolidated Educational Buildings Refunding Revenue Bonds, Series M (Second Series). He said the purpose of this issue is to refund original Series M bonds issued for the Animal Diagnostic Laboratory and for the Lexington Community College Building. He said the proposed date of sale is June 9, 1998; the expected bond ratings are A1 by Moody’s and AA- by Standard & Poor’s; the gross proceeds are $4,665,000; the expected interest rate is 5% over 13 years; the estimated average annual debt service is $542,715; and the average annual debt service savings are expected to be $17,555. Mr. Howard said the first call date is May 1, 2008, at 101% and the bond issue will be a competitive sale. Bond counsel is Peck, Shaffer & Williams; financial advisor is Seasongood & Mayer; and the trustee is Bank One.

Senator Nunnelley made the motion to approve the two new bond issues for the University of Kentucky. The motion was seconded by Representative Wayne and passed by voice vote.

Mr. Howard next discussed Kentucky Infrastructure Authority (KIA) Governmental Agencies Program (Fund C) Bond Anticipation Notes, 1998 Series A. Mr. Howard said these notes will renew both 1997 Series A and Series B Bond Anticipation Notes and will be used to provide interim financing for KIA Fund C participants during construction. Mr. Howard said the proposed date of sale is June 16, 1998; the expected ratings are A-1 from Standard & Poor’s; the gross proceeds are $7.3 million; and the initial interest rate is estimated to be 4.4% for the two-year term. Mr. Howard said this is a negotiated sale and the bonds are callable on any interest payment date at face value. Bond counsel is Peck, Shaffer & Williams; underwriter’s counsel is Brown, Todd & Heyburn; underwriter is Merrill Lynch; and trustee is PNC Bank.

in financing wastewater projects under the KIA Fund A program. He said the gross proceeds are $6,560,000; the final maturity is June 1, 2017; and the arbitrage true interest cost is 4.92%.

The next follow-up report Mr. Howard discussed was for KIA Solid Waste Revolving Fund Program Revenue Refunding Bonds, 1998 Series E. The purpose of the bond issue is to refund 1992 Series A bonds. Mr. Howard said the proceeds were $3,765,000; the total present value savings is $138,340; the final maturity is June 1, 2012; and the arbitrage true interest cost is 4.72%.

The final follow-up report Mr. Howard discussed was for KIA Governmental Agencies Program Revenue and Revenue Refunding Bonds, 1998 Series I. The proceeds of the bond issue will be used to convert interim financing notes for infrastructure projects for governmental agencies to long-term financing, and to advance refund selected 1991 Series D bonds. Mr. Howard said the proceeds are $3,240,000; the final maturity is August 1, 2017; and the arbitrage true interest cost is 4.835%.

Mr. Howard said the three KIA bond issues sold April 15, 1998, and closed April 28, 1998. Bond counsel is Peck, Shaffer & Williams; underwriter’s counsel is Brown, Todd & Heyburn; underwriter is Merrill Lynch; and trustee is National City Bank of Kentucky.

Chairman Damron said the follow-up reports do not require any action from the Committee.

Chairman Damron called on Ms. Marilyn Eaton-Thomas, KIA, to discuss two KIA projects. The first project was a $5,605,118 KIA Fund A loan for the city of Crestwood in Oldham County. Ms. Eaton-Thomas explained that Crestwood does not have a public sewer system, and the Fund A loan will be used to construct a wastewater collection system to replace septic tanks and 13 package treatment plants. She said Crestwood qualifies for an interest rate of 3.8% for 20 years, and the average sewage bill will be $24.54 for 6,300 gallons. She said the KIA Board has approved the Fund A loan.

Chairman Damron asked if the city has agreed to the sewer user rate increase. Ms. Eaton-Thomas said the city held several public hearings on the proposed rates and has high. He said that the project budget identifies $1.6 million in engineering fees and $7.7 million for construction. Ms. Eaton-Thomas said that one of KIA's Board members initially had similar concerns and noted that the fees do exceed the Farmers Home schedule for engineering fees. However, Crestwood's mayor, Mayor Deibel, made a presentation to the Board that satisfied the Board's concerns. She explained that Crestwood does not have a city engineer, and relied on the engineering company, PDR Engineers, Inc., to do administrative work normally done by the city. She said she would be glad to provide the mayor's letter to the Committee justifying these fees, and added that a major portion of the engineering fees are being picked up by the city, and not with state money (the loan).

Senator Buford asked if there will be any additional review as to why the engineering fees are so high. Ms. Eaton-Thomas said the Division of Water, prior to the mayor's letter listing the extra project work PDR had done, reviewed the contract line by line, and felt comfortable with it. She stressed that while the state reviews these contracts, it is the city that is the procurement authority. She said the mayor's letter indicates that PDR charged $698,000 for design which is in line with typical engineering contract fees. She said $493,000 of PDR fees was identified as construction services because the engineering firm acquired easements for the city, developed an assessment plan, conducted geotechnical and floodplain analysis, managed the interlocal agreements with the Metropolitan Sewer District and the city of Park Lake, and negotiated with the private sector developments for its $400,000 contribution. Ms. Eaton-Thomas said she would be willing to take any recommendations from the Committee for further investigation.

Rep. Wayne said the project should be passed over until someone from the city of Crestwood is available to answer questions raised by the Committee. He said the Committee has a role to play in the process, and in order to do a thorough job, passing over the project at this time appeared to be the appropriate action.

Ms. Eaton-Thomas said she was sure Mayor Deibel would be willing to make a presentation before the Committee.

In response to a question from Chairman Damron, Ms. Eaton-Thomas said if the Committee passes over the project, it will affect the project. She said bids are already in hand, and the city is ready to award the contracts and begin construction.

Chairman Damron said the project will be passed over until the next meeting. He said that Mayor Deibel and PDR should be encouraged to attend the next meeting and have documentation as to why the engineering fees for the project are so high.

Next, Ms. Eaton-Thomas discussed a previously approved KIA Fund A loan for the city of Harlan in Harlan County. She said the time lapsed for the city to get the project started, and they are requesting reapproval of the loan. Ms. Eaton-Thomas said the city is also requesting an 11% increase in the loan amount, from $2,575,790 to $2,867,492. She said the proceeds of the loan will be used to construct a new wastewater treatment plant to replace the existing one. Ms. Eaton-Thomas said the cost increases resulted from action taken by the U.S. Corp of Engineers during the design phase to raise the treatment plant site by 40 feet to meet similar elevation changes in the 100-year flood plain. She said the total project scope is $6,053,574; the interest rate is 1.8% for 20 years; and the average user bill will be $19.83 per 6,800 gallons used.

Representative Graham made the motion to approve the Fund A loan amendment for the city of Harlan. The motion was seconded by Senator Buford and passed by voice vote.

Chairman Damron asked Senator Leeper to take over duties of the Chair for the next two agenda items. Senator Leeper called on Mr. Howard to report on six new SFCC issues, none which required a tax increase: Berea Ind. (Madison Co.) - $1,575,000 to complete renovations to the high school; Grayson Co. - $860,000 to build high school classrooms; Hopkins Co. - $470,000 to refund 1989 bonds; Todd Co. - $875,000 to partially refund 1990 bonds and $3,350,000 to complete construction and renovations to the high school; and Whitley Co. - $3,280,000 to build a new elementary school.

Representative Graham made a motion to approve the school bond issues with SFCC participation in debt service. The motion was seconded and passed by voice vote. Chairman Damron abstained from the vote, citing a possible conflict of interest.

Senator Leeper said there was one locally-funded bond issue for $40,000,000 for the Kentucky School Boards Association Tax and Revenue Anticipation Note Program for Kentucky School Districts, and seven new school district bond issues with locally-funded debt service, none of which required a tax increase. Local school bond issues

$1,845,000 to complete classroom additions at one elementary school and at one high school.

Senator Leeper said no action was required on school bond issues that are 100% locally-funded.

Chairman Damron said the updated monthly/weekly debt issuance calendar was enclosed in members' folders, along with a staff report on 1998 General Assembly action; an update regarding appropriation supported debt; and the Parks Revitalization Bond Implementation Report.

Chairman Damron announced the next meeting is scheduled for Tuesday, June 16, 1998, at 1:00 p.m. in Room 129.

The meeting adjourned at 2:30 p.m.